

State of Michigan Senate Economic Development Committee

New International Trade Crossing Hearing

Farnum Building

125 West Allegan Street

Lansing, Michigan

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Good afternoon, I am Neil De Koker, president and CEO of the Original Equipment Suppliers Association (OESA). OESA represents 310 component manufacturers and 90 service providers to the North American automotive passenger car and light duty truck industry. OESA is a part of the Motor & Equipment Manufacturers Association which represents an additional 300 firms in the heavy duty, aftermarket and remanufacturing sectors of the motor vehicle industry. Given the automotive industry is global, with 83 percent of vehicle production outside of the NAFTA region, OESA's membership is global as well --- however, to be a voting member of OESA, a company must have a manufacturing or other major facility in North America.

The members of OESA are supportive investing in the New International Trade Crossing. We see the need for this public-private partnership as essential to providing the efficient, effective border crossing capabilities that are integral in the management of the next century automotive supply chain.

To provide some perspective for the committee, here are some facts on the North American automotive industry and the automotive supply base:

- Automotive suppliers provide some two-thirds of the value, on a dollar basis, of the vehicle.
- North America is made up of more than 3,000 suppliers.
- While the NAFTA manufacturing footprint has spread toward the South, Michigan and Ontario assembly plants continue to produce approximately one-third of the NAFTA vehicle production

- And, of course, wherever the assembly plants are located, many suppliers are clustered nearby these plants. A recent review of a major automotive supplier database of over 1,700 supplier locations, Michigan was home to some 25 percent of these entities.
- When we ask our members, "What are the top issues you consider in expanding or retaining facilities?" the top three answers are: labor capability, logistics considerations and the business tax climate. Clearly, Michigan is in a unique position to increase – or lose – job-creating investment based on any one of these criteria including transportation logistics.

Given the global nature of the industry, some part of the U.S. supply base is market tested around the world against the very best global suppliers every day. That forces the North American suppliers that support our assembly plants to stay lean and competitive. Every day, suppliers are judged on the following criteria:

- Meeting customer production release schedules
- Total manufacturing costs – including overtime labor and expedited freight
- Flexibility to respond to production mix and schedule changes
- Minimizing inventory carrying costs
- Minimizing total logistics costs, and
- Quality – minimizing rework and warranty

A common element supporting all of these metrics is an efficient, effective transportation system. Without a doubt, supply chain risk increases with every additional mile a part is shipped. One consultant puts the threshold at 250 miles where supply chain risk begins to increase significantly. So, if one third of North American production is in Ontario and Michigan, the supply base is going to be clustered in a corresponding area – and the Detroit-Windsor border is in the middle of all this activity making it absolutely vital to the ongoing success and growth of the industry in this region.

Allow me to share just a couple of statistics about our country's trade with Canada. The US exports more to Canada than we do to all of the 27 countries of the European Union put together. Half of everything Michigan sells to the world is sold to Canada. A reliable and efficient transportation infrastructure is every bit as important for the US as it is for Canada. Trade between our two countries has been growing forever and it will continue to grow by all projections.

The automotive industry is heavily dependent upon a reliable infrastructure with minimum delays in order to assure the delivery of all components necessary to keep assembly plants running. Last December, the Blue Water Bridges closed for two days due to snow. Auto plants in both Michigan and Ontario closed down at a major cost to the industry. A shutdown of the Ambassador for any reason would require rerouting of traffic at a major cost and impact on livelihoods. As we understand it, the congestion around the bridge in Windsor as well as Detroit is such that a second span is unlikely to get approved or to meet long term national security needs.

Based on the expected continued growth of commerce between Canada and the US, independent studies have shown that six lanes of additional infrastructure are required between Detroit and Windsor. The auto industry forecasts its production volumes for the NAFTA region to come back to pre-recession levels within the next five years. That would again bring up the concerns of adequate infrastructure capacity between Michigan and Ontario. As I stated earlier, our industry, and others as well, make investment decisions based on several criteria including logistics. Without the addition of a New International Trade Crossing, future growth and expansion of the industry in Michigan would be negatively impacted.

As the State of Michigan looks at making border crossing infrastructure investments, OESA would encourage its elected officials and civil servants to make the best decisions based on the following criteria:

- The ability to handle future, anticipated Homeland Security requirements for the movement of personnel and goods in a manner that assures national security while enabling a transparent national border as it pertains to commerce
- The ability to handle the increasing commerce flow in the Michigan area between the east-west routes through Canada and the north-south leg through Michigan
- The anticipated increase in North American-sourced components and subsystems to protect local assembly operations supply lines that require greater north-south logistics through NAFTA

- Consideration of the efficiency of physical goods and personnel transportation – both are critical to the business of automotive, and
- Financing that maintains an attractive local business tax climate and low, on-going fare costs

The provisions laid out in the New International Trade Crossing proposal appear to fulfill all of these criteria. Thank you.